

CHEMONICS INTERNATIONAL INC.



**BUILDING A MICROENTERPRISE INDUSTRY IN THE
WEST BANK AND GAZA PROJECT**

**THE IMPACT OF THE CURRENT POLITICAL SITUATION ON THE
WEST BANK AND GAZA MICROFINANCE INDUSTRY**

September 2000 – February 2001

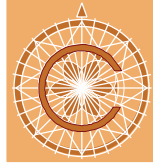
Contract No. OUT-PCE-I-00-99-00007-00

Submitted To:
Mr. Johny Zeidan

Submitted By:
Chemonics International

FINAL

February 27, 2001



CHEMONICS INTERNATIONAL INC.



**THE IMPACT OF THE CURRENT POLITICAL SITUATION ON THE
WEST BANK AND GAZA MICROFINANCE INDUSTRY**

September 2000 – February 2001

Building a Microfinance Industry in the
West Bank and Gaza Project

Contract No. OUT-PCE-I-00-99-00007-00

FINAL

February 27, 2001

ACRONYMS

AB	Arab Bank
ACAD	Arab Committee for Agricultural Development
ANERNA	American Near East Refugee Aid
ASALA	Palestine Business Women Association
BOJ	Bank of Jordan
CBP	Commercial Bank of Palestine
FLO	Field Loan Officer
JNB	Jordan National Bank
MFI	Microfinance Institution
NGO	Non Governmental Organization
PARC	Palestinian Agricultural Relief Committee
PDF	Palestine Development Fund
SLO	Supervising Loan Officer
SME	Small and Medium Enterprises
UNRWA	United Nations Relief and Working Agency for Palestinian Refugees
USAID	United States Agency for International Development
WB/G	West Bank and Gaza

TABLE OF CONTENTS

Introduction	5
SECTION I	6
Background	6
SECTION II	7
Impact of the intifada	7
SECTION III	8
Response to the intifada	8
A. Program management	8
1. New loans	12
2. Collection and loan rescheduling	12
3. Outreach	13
4. Sustainability	13
B. Support mechanisms for at-risk groups	13
SECTION IV	14
Recommendations	14
1. Microfinance association	14
2. Business planning and management information systems	14
3. Training	14
4. Microfinance Advisory Taskforce	15
5. FLO incentive systems	15
6. Cooperation with civil society organizations	15
 ANNEX I: Summary of the Intifada Effects and Expressed Needs	
ANNEX II: Survey Questionnaire and Results	
ANNEX III: First Draft of Impact Report by Jorge Daly and Guy Henggeler	

Introduction

Chemonics, International is submitting this assessment of the political uprising, or *intifada*, on the microfinance industry in the West Bank and Gaza (WB/G) to examine how microfinance programs have responded to the situation and recommend actions to mitigate its effects. The survey is based on interviews conducted in WB/G in January 2001 with 12 microfinance programs, including four commercial banks and eight non-governmental organizations (NGO).

Commercial banks

- ⇒ The Commercial Bank of Palestine (CBP)
- ⇒ The Bank of Jordan (BOJ)
- ⇒ The Arab Bank (AB)
- ⇒ Jordan National Bank (JNB)

NGOs

- ⇒ American Near East Refugee Aid (ANERNA)
- ⇒ United Nations Relief and Working Agency for Palestinian Refugees (UNRWA)
- ⇒ Palestine Business Women Association (ASALA)
- ⇒ Young Men's Christian Association (YMCA)
- ⇒ Palestinian Agricultural Relief Committee (PARC)
- ⇒ Palestine for Credit and Development (FATEN)
- ⇒ Arab Committee for Agricultural Development (ACAD)
- ⇒ Palestine Development Fund (PDF)

Mazen Asa'ad of MASSAR Associates and Imad Hamze, Deputy Resident Advisor conducted the interviews. Mr. Charles Taylor, Chief of Party and Mr. Peter Bittner, Senior Vice President of Chemonics also participated. Because of mobility restriction imposed during the *intifada*, interviews were concentrated only in Ramallah and Jerusalem where the microfinance programs have central offices.

SECTION I

Background

A period of political uprising, or *intifada* has left more than 300 people dead, thousands injured and widespread destruction of public and private property. The UN reported damage by Israeli forces to 431 private homes, 13 public sector buildings, 10 factories, 14 religious buildings and 69 orchards / greenhouses. Much of the violence has concentrated in densely populated areas of Ramallah, Hebron, Jenin, Nablus and the Gaza Strip.

Israel subsequently implemented a series of sanctions on the occupied WB/G, including border closings, roadblocks, the freezing of bank accounts and restriction on imports through Israeli ports. Economic costs associated with these sanctions are estimated at USD 500 million, more than 10% of 2000 GDP and twice donor disbursements for the first half of the year. The poverty rate rose from 21% to 32% over the period and unemployment from 11% to 40%. Almost half of the WB/G population, or 1.4 million, are estimated to have suffered significant economic effects.

Border closings restrict the movement of Palestinians lacking formal Israeli identification cards. In effect, 'exclusion zones' have been established around major urban area through a series of roadblocks on major highways. This has upset regional trade and caused extensive transportation delays and inventory losses. Businesses smuggle goods between cities with off-road vehicles, but this places their lives at risk and exposes them to interrogation by Israeli soldiers.

The Gaza strip and West Bank border cities and those that depend on trade and tourism have been especially impacted by the sanctions and mobility restrictions (with Gaza being most economically and politically isolated). It has been estimated that 120,000 Palestinian employees are prevented from going to their job inside 1948 borders, which drastically reduces family income. Al Ayam newspaper reported that 75% of 'businesses interviewed' could survive only one more month under current conditions, 11% three more months and 2.8% for six more months. Such biased figures reveal the level to which the problem has become politicized in the Arab press, though few would contest that sanctions have caused a major economic disruption in the region.

The future of the *intifada* is difficult to anticipate because it is unclear how the election of Ariel Sharon in February will affect policy toward WB/G. Some argue that it will improve stability because less political violence will be stirred up around the peace process, while others believe it will increase violence because the new Prime Minister has had a heavy handed style in dealing with the Palestinians in the past.

SECTION II

Impact of the intifada

The effect of the *intifada* on small and micro enterprises varies significantly across sectors of the economy and especially impacts those that are dependant on Israeli markets, tourism or the movement of goods between cities. When asked where the effects of the intifada have concentrated, respondents replied:

- ⇒ In the West Bank, especially in rural areas, 1948 border regions, Area H2 of Hebron (where there is a curfew), Jenin, Nablus and El Bireh.
- ⇒ In Gaza, especially in agriculture (from Israeli property destruction), tourism, and the garment industry.
- ⇒ Rural areas like Jericho where farmers have difficulty selling their produce.
- ⇒ Clothing, wholesale, retail, restaurants and tourism (grocery stores and bakeries less so).
- ⇒ Bethlehem and in Toulkarem where branches have borrowers inside the green line.
- ⇒ Employees that work inside 1948 borders.

Tourism

Tourism is the main source of income in areas such as Gaza, Jericho and Bethlehem. The drop in tourist spending has affected microfinance borrowers including a client supplying paper products to hotels in Gaza and retail shop owners in Bethlehem.

Manufacturing

Small-scale manufacturing workshops have been affected because of the difficulty in receiving raw materials and the breakdown of marketing and transportation systems. In Bethlehem, carpentry, aluminum and blacksmith workshops have experienced a 44% drop in employment according to the General Manager of the Chamber of Industry and Trade. Poor performance in the Gaza garment industry has caused the YMCA to stop lending there.

Retail

Local businesses have been less affected such as grocery stores, pharmacies and local services are generally okay, though a CBP client in El Bireh was forced to close his pharmacy because of political violence and some retail shops have been destroyed in Jenin.

Agriculture

Agriculture has been hardest hit because of the loss of inventory and the breakdown of transportation systems, especially farmers that market produce inside 1948 borders.

SECTION III

Response to the *intifada*

The *intifada* has caused a clear and negative effect on the lending operations of microfinance programs surveyed, though their resiliency has been determined most by the quality of their portfolios before the conflict. Microfinance programs respond to the *intifada* in two ways: (1) managerial adjustments to the program and (2) the development of support mechanisms for clients. This report focuses on the former.

A. Program management

Microfinance programs have been forced to adapt collection, personnel and outreach policies to respond to the *intifada*. The type of clients targeted influences the strength of portfolios. The income security of established businesses, business start-ups, women, young people and farmers accounts largely for the difference in impact of the *intifada* on repayment rates over the period. Practitioners believe that microloan portfolios (USD 100-10,000) have performed better than small loans (USD 10,000 – 50,000), possibly because microbusinesses are economically more self-sufficient and less vulnerable to Israeli sanctions. More research needs to be conducted to discern the precise effects of the *intifada* on different types of businesses and client groups.

The following table is a summary overview of microfinance program performance during the *intifada*, based on results of the survey (see annexes). Before presenting the data, it should be noted that interviews were conducted to identify trends, not to quantitatively evaluate the operation of the programs. Chemonics appreciates the openness and cooperation of the respondents.

Table 2: Effect of *the intifada* on microfinance program portfolios.

ORGANIZATION	MICROFINANCE PROGRAM PROFILE							AFFECT OF THE <i>INTIFADA</i>				
	Loan Size USD	Terms	Clients	% arrears	Portfolio at Risk ,000 USD	Loan Rescheduling	FLO Incentives	New loans	Portfolio in Arrears	Repayment rate	Projected arrears	Defaults
BANKS												
Commercial Bank of Palestine (CBP)	750 to 30,000	9.5%	Craftsmen	6.5	83	Yes	Yes	↓ to 4/month	↑ WB 1 to 3.5% ↑ G 8 to 16%	-	↑ 10%	0
Bank of Jordan (BOJ)	\$750- \$10,000	1.75% per month	Working capital commerce and industry	11.5	98	No	Yes	↓	↑ 4 – 11%	-	↑	3
Arab Bank (AB)	\$750- \$5000	1.75% per month	Working capital for merchants and industry	17	270	Yes	Yes	↓	↑	↓ 97 to 60% ↑ to 80% Dec.	-	1
Jordan National Bank (JNB)	3000- 30000	10% declining	Craftsmen	25	750	Yes	No	↓ 12 – 1/month	Nablus 3.5% Others 1%	-	↓	0

ORGANIZATION	MICROFINANCE PROGRAM PROFILE							AFFECT OF THE INTIFADA				
	Loan Size USD	Terms	Clients	% arrears	Portfolio at Risk ,000 USD	Loan Rescheduling	FLO Incentives	New loans	Portfolio in Arrears	Repayment rate	Projected arrears	Defaults
NGOs												
American Near East Refugee Aid (ANERNA)	1,000 – 8,000	8.5% for 3 years	Farmers	50	400	Yes	No	↓	-	↓ 91 to 50%.	↑	0
United Nations Relief and Working Agency for Palestinian Refugees (UNRWA)	5,000 - 40,000	10%	Working capital for established businesses	26	405	No	No	↓ 247 - 97	↑ 12% to 67% (1 day late)	-	↑	-
Palestine Business Women Association (ASALA)	3,000 to 20,000	8.5% for 2 or 3 yrs	Women	11	110	Yes	-	↓	↑ 6% to 11% (1 day late)	-	↑	0
Young Men's Christian Association (YMCA)	2,000 to 8,000	13 %	Young people vocation start-ups			Yes	-	↓ 27 - 0/mo.	↑ 9% to 60%.	-	↔	0
Palestinian Agricultural Relief Committee (PARC)	-	-	Women			-	-	↓ to 1/month	↑ to 51%.	-	-	0

ORGANIZATION	MICROFINANCE PROGRAM PROFILE							AFFECT OF THE <i>INTIFADA</i>				
	Loan Size USD	Terms	Clients	% arrears	Portfolio at Risk ,000 USD	Loan Rescheduling	FLO Incentives	New loans	Portfolio in Arrears	Repayment rate	Projected arrears	Defaults
NGOs												
FATEN	-	24%, 3- 6 months	Women's groups	22	250	-	-	↓ 90%	↑ 0 to 20%.	40%	↔	1%
Arab Committee for Agricultural Development (ACAD)	3,000 to 15,000	13 - 18%	Agricultural inputs and micro loans			Yes	Yes	0	↑ to 1150 loans	-	↑	2
Palestine Development Fund (PDF)	Up to 25,000	-	-	66	1,261	-	No	↓	-	-	-	-

Interviews conducted in January 2001

↓	Decrease
↑	Increase
↔	Stable
-	No Information available

1. *New loans*

The *intifada* has caused all respondents to restrict the disbursement of new loans. UNRWA reported they extended one-third the number of loans compared to the period before the conflict, while ACAD and YMCA stopped lending to new clients altogether. Banks have been better at continuing new loan activity, especially since the easing of tension in December. The reduction in new loans can be accounted by the reduced supply of loans by creditors and, to a much lesser extent, a reduced demand for loans by borrowers.

The reduction in loan supply results from the uncertain political and economic environment that has caused significant outreach problems and logistical constraints for providers. For example, the Gaza branch of the Bank of Jordan, the fastest growing microloan market before the crisis, stopped lending abruptly with the Israeli assault on the city. The Arab Bank has continued outreach activity and shows a strong sense of social obligation to help their clients through the conflict.

The demand for new loans by borrowers may drop due to a number of interrelated factors. Businesses may fear that if sales fall their working capital loans will go into default. Some programs are toughening their loan eligibility criteria, such as requiring more guarantors or salary transfer guarantees, and programs have slowed or stopped marketing programs to recruit new clients.

2. *Collection and loan rescheduling*

The *intifada* significantly impacted repayment to bank programs. Before the conflict, the Arab Bank reported a repayment rate of 97.28%¹. Using the conservative measure of one or more days past due, it had only 76 at-risk loans amounting to \$10,635 (5.58% of the portfolio). As a result of the conflict, the repayment rate dropped to a low of 60% in November and only partially recovered to 80% by December.

The other respondents also suffered increased arrears², especially rural NGO programs such as PARC and UNRWA. These problems in repayment may result from the desire of borrowers to save cash for future economic uncertainty or simply because the *intifada* is a good excuse to skip payments. Loan restructuring provides short-term relief for a failing portfolio, but obscures the real default rate and seriously impacts program liquidity and cash flow. Most programs have a policy to reschedule non-performing loans, though UNRWA and BOJ do not.

¹ in April 2000

² programs reported significant arrears but only a negligible default rate, which should draw greater attention to their loan write-off policy.

3. Outreach

Mobility restrictions in WB/G have negatively impacted the servicing of loans. Field loan officers (FLO) are often either restricted from, or fearful of, visiting borrowers, which has caused CBP and YMCA to follow up loans by phone. Overall, the morale of FLOs is very important for the program to effectively respond to the *intifada*, because they are in the best position to: (1) conduct rapid assessments of actual damages and risks, (2) determine candidates for loan rescheduling, (3) identify recipients for relief loans and (4) recommend appropriate collection mechanisms.

Programs have adapted their incentive and salary structure differently to meet the income security needs of FLOs during the *intifada*. The Arab Bank has reimbursed FLOs according to the average of (80% salary + incentives) earned over the five months preceding the conflict, while ACAD pays a flat rate incentive annually without regard to the effects of the conflict. Some programs have reported they have no incentive scheme and were predictably vulnerable to personnel problems and collection problems.

4. Sustainability

The *intifada* has impacted the financial standing of the microfinance programs in the period, though the extent of the damage and the time it will take to recover are still unclear. The consensus among respondents is that portfolios will recover if political calm is maintained, though they could experience long-term effects if the conflict continues into the spring.

The primary threat to sustainability continues to be the unrelated constraint of internal financial management. The loan-loss provision of the BOJ dropped from more than 200% of the active portfolio in September to only 26% in December because the supervising credit officer at the Nablus Branch collected only partial payments in the month of Ramadan and reported them as complete. By the time the bank realized the problem, delinquent loans had seriously affected the financial position of the program.

B. Support mechanisms for at-risk groups

With the drop in new loans, microfinance programs have provided limited support to at risk groups. CBP and BOJ each postponed implementation of their housing loan programs. ANERNA worked with the Ministry of Agriculture to provide income generation activities for farmers, while the Arab Bank stepped up its hospital and housing loan program and granted \$4,000 to the family of a client killed in the violence.

SECTION IV

Recommendations

In the draft report on this subject submitted to USAID on December 14, we discussed activities that other donor agencies and MFIs had undertaken in other countries in times of war and natural disaster. These activities include a subsidized guarantee fund, conflict relief fund and emergency loan program. We have found that comparable cases are hard to find because of the nature of the conflict. It cannot be considered a national “disaster” like the civil wars of Lebanon or Sudan, but should be viewed more as an externally imposed economic recession caused by sporadic violence and measured reactions by Israeli forces. Because social and economic infrastructure remains intact in the region, there is a good opportunity for natural economic recovery when violence calms and sanctions are lifted.

The conditions in the WB/G are sufficiently different from other cases that no single relief approach is particularly relevant to current needs in the WB/G. Further, we advise caution in the introduction of subsidies on guarantee programs in a situation where they may not be needed because they can lead to dependencies on outside capital. In effect, we do not want to introduce “rescue” programs that undermine local capital mobilization and further create dependencies on donor funding and support. However if the situation in WB/G worsens in the months ahead, we will research the options further and revisit the appropriateness of relief measures, such as the establishment of a credit guarantee program.

The following project related activities will have immediate relevance in helping microfinance programs to adjust to the effects of the *intifada*:

1. Microfinance association

The microfinance association will enable programs to share their experiences and participate in research on issues related to the *intifada*. The programs surveyed have shown interest in participating in the association and believe it could be instrumental in developing new strategies to adjust to the conflict.

2. Business planning and management information systems

Business planning will help programs develop the strategies and systems necessary to respond effectively to external contingencies. Better computer-based management information systems will help programs to identify specific problems and respond to them more effectively in periods of political unrest.

3. Training

The *intifada* has resulted in free time for program staff, which could be used to receive training or other capacity building assistance. The programs interviewed specifically mentioned a need for financial training and a regional needs assessment workshop of stakeholders will further define their training needs.

4. Microfinance Advisory Taskforce

A microfinance advisory taskforce could analyze and make recommendations to improve the performance of microfinance programs in periods of *intifada*. The task force would be developed through a series of working meetings of practitioners, academics and consultants.

5. FLO incentive systems

FLO incentive structures should be reevaluated to ensure fair compensation for work, including the additional risk and costs associated with the *intifada*. The project will advocate for fair incentives because programs lacking them have been shown to be more vulnerable to the effects of the *intifada*.

6. Cooperation with civil society organizations

Civil society organizations have taken a prominent role in implementing community development projects in the region over the past 20 years. The improvement in the network of community association across the West Bank is an important mechanism to target relief activities to groups at risk from the *intifada*.

ANNEX I**Summary of the Intifada Effects and Expressed Needs**

Organization	Program Details	Effect of the <i>intifada</i>	Expressed needs or concerns
BANKS			
Commercial Bank of Palestine (CBP) Tel. 295-4144 Ramallah Mr. Khaled Al Ghobeish, General Manager. Interviewed Mr. Samer Abdullah , Credit Manager.	<ul style="list-style-type: none"> Funded by the World Bank, IFC and bank funds. Branches in Ramallah, Nablus, Gaza, El Ram, and in El Ezariah (Jerusalem). Loans from \$750 to \$30,000 at a 9.5% declining balance interest rate. 	<ul style="list-style-type: none"> Micro portfolio performing better than small business loans Loaning at slower pace. 	<ul style="list-style-type: none"> Training Seminar on problem loan management (willing to visit AMIR in Jordan) Market studies of small businesses such as carpentry.
Bank of Jordan (BOJ) Ms. Suzan Khoury, Credit Manager. Tel: 295-9472 Ramallah. Interviewed Ms. Khoury	<ul style="list-style-type: none"> Chemonics project counterpart. Branches in Al Bireh, Bethlehem, Al Rimal, Khan Younis and Tulkarm. Loans from \$750 to \$30,000 at a 9.5% declining balance interest rate. 3,000 loans made amounting to 6.9 mill. Repayment rate 82%. 	<ul style="list-style-type: none"> Portfolio of outstanding loans dropped from JD1.3 million to JD850,000. Lending at slower pace. Salaries increased for FLOs to compensate for lower bonus payments from less loan demand. 	<ul style="list-style-type: none"> Microcredit Forum. Training and seminars at AMIR. Seminars on (1) problems of <i>intifada</i>, (2) management, (3) marketing and (4) new product development. Market studies.

BANKS	Program Details	Effect of the <i>intifada</i>	Expressed needs or concerns
The Arab Bank (AB) Regional: 298-2450 Branch: 298-6480 Mobile: 050-273487 Fax: 298-2523 Joseph Nesnas, Regional Director. Interviewed Mr. Firas Al Najjab and Mr. Nader Ikal.	<ul style="list-style-type: none"> • Chemonics project counterpart. Branches in Nablus, Jenin, Hebron and Gaza. • Loans average 2,500 with 2% per month interest rate. • 2000 loans made amounting to more than \$5 mill. • Repayment rate 97%. 	<ul style="list-style-type: none"> • Past-dues increased dramatically from 4% prior to 17% in January. 	<ul style="list-style-type: none"> • Training on problem loan management, willing to visit AMIR in Jordan • Microcredit Forum but concern of effectiveness. • Consulting advice on how to better deliver existing products and establishing a microfinance subsidiary. • Accounts receivable program. • Guarantee fund for microlending if the current political environment deteriorates.
Jordan National Bank Tel: 295-9343 Ramallah Musa Komkam, Project Manager. Interviewed Hania Alam, Ramallah Branch Manager.	<ul style="list-style-type: none"> • IFC funded project. 	<ul style="list-style-type: none"> • New loans in sectors <u>other</u> than tourist and small workshops, which were affected by <i>intifada</i>. Arrears (30 days) to 25% of the micro portfolio. • Loan rescheduling. 	<ul style="list-style-type: none"> • Training. • Consultant services in new product design and business planning.

NGOs	Program Details	Effect of the <i>intifada</i>	Expressed needs or concerns
American Near East Refugee Aid (ANERA) Tel: 02-6277076 Jerusalem Mazen Dabbagh, Executive Director Interviewed Mr. Dabbagh	<ul style="list-style-type: none"> • IFAD project from Jericho-Gaza peace agreement. \$1,000,000 guarantee fund at the bank, \$250,000 allocated for the project. Loans to agriculture sector. • Loans between \$1000 - \$8000 at 8.5% for 3 years w 6 month grace period. 1.5% interest for indirect costs. • Loans secured by salary transfer (difficult because few salaried employees in rural areas. Negotiating post-dated check in lieu of transfer). 	<ul style="list-style-type: none"> • Focus on collection. • Disbursement down. • Arrears increased. • Loans rescheduled, no write-offs 	<ul style="list-style-type: none"> • Microcredit Forum.
Palestine Business Women Association (ASALA) Tel: 298-0432 Ramallah Ms. Reem Abboushi, Executive Director Interviewed Ms. Abboushi	<ul style="list-style-type: none"> • Small MFP targeting women in the West Bank and Gaza funded by Netherlands government in 1997. • Loans to start-ups and established enterprises from \$3,000 to \$20,000, 2 or 3 years flat rate of 6.5% + 2% commission. 260 loans disbursed with \$1.2 mill outstanding. • Also implements ASALA Microenterprise lending program started by CRS in Gaza, with 550 women borrowers. ASALA charges 11% on a declining balance. • Portfolio US\$1 million (need 2.5 million to reach break even). Past-dues have doubled but are manageable. 	<ul style="list-style-type: none"> • Focus on collection • Disbursement down • Arrears increased. 	<ul style="list-style-type: none"> • Business planning and break even analysis. • Microcredit Forum but inefficiency. • Training • Advocay with villages and religious leaders to convince them 2% per month is not userous.

NGOs	Program Details	Effect of the <i>intifada</i>	Expressed needs or concerns
United Nations Relief and Working Agency for Palestinian Refugees (UNRWA) Tel: 5890451 Jerusalem Mr. Alex Pollock Chief Microfinance & Microenterprise Program Interviewed Jane Giacaman, Microfinance & Microenterprise Officer and Mr. Pollock.	<ul style="list-style-type: none"> • Small Scale Enterprise (SSE) Lending Program with maximum first loan of 10,000 (was up to 50,000 with previous management) and second loans between \$5,000 -\$40,000 to established businesses only. • SSE being phased out (active portfolio from \$2.5 million to \$67.5 thousand). • SEE problems include (1) disbursements of loans as a lump sum without linking it to investment, (2) no proper reporting or follow-up of investments, (3) insufficient interest rate (7% declining plus 3% flat).. • Expanding microlending program started in Nablus in 1989 for informal sector (push carts vendors, construction workers, etc.). • Headquarters Jerusalem, branches in Nablus, Jenin, Tiulkarm, and Gaza. (Hebron coming this year). 	<ul style="list-style-type: none"> • Focus on collection. • Disbursement down. • Loans rescheduled, no write-offs. • Now loans only to repeat borrowers. • Arrears from 5% to 12% (30 days past-due). 	<ul style="list-style-type: none"> • Microcredit Forum with banks and certain NGOs, against participation of some poorly performing NGO programs. • Training in loan management systems.

NGOs	Program Details	Effect of the intifada	Expressed needs or concerns
YMCA Tel: 9956769 Ramallah Mr. Adnan Shalaldeh	<ul style="list-style-type: none"> Funded by USAID and the Dutch fund in 1995 Average loan amount increased from \$2000 to \$8000 since program began. 13% flat rate. Arrears high from 10% to 45%. Targets 18-30 years in vocational start-ups with leased machines for carpentry, car mechanics and other vocations. 	<ul style="list-style-type: none"> New loans still disbursed. Focus on collection. Disbursement down. Arrears increased. Significant effect on an already high risk portfolio. 	<ul style="list-style-type: none"> Business planning and sustainability help including better internal reporting system. Seminar on loan management Microcredit Forum.
Palestinian Agricultural Relief Committee (PARC) Tel: 2963840 Ramallah Haytham Hammouri, Head of Small Enterprise Development Department. Interviewed Mr. Hammouri	<ul style="list-style-type: none"> Targets women that would not qualify with other MFPs. BDS includes vocational training bookkeeping and gender program. Training in the various lending methodology and reporting. Operates 107 women's clubs in villages of the West Bank from where clients are selected. PARC knows the women and can assess their needs and qualifications easily. Fast selection and approval process. Portfolio 500,000 USD with only 108 loans outstanding. Mentioned high demand and limited funding. 	<ul style="list-style-type: none"> Focus on collection Disbursement down Arrears increased. 	

NGOs	Program Details	Effect of the intifada	Expressed needs or concerns
FATEN Tireh , Ramallah Tel: 2961470 Mr. Mouhamad Khaled, Executive Director. Interviewed Mohammed Khaled.	<ul style="list-style-type: none"> Not-for-profit organization registered with Commerce and Shareholder Companies. Plans to become a formal MFI with savings and insurance components. Loans to women's groups who distribute them to members. Terms several months, 2% per month, 100-300 USD to each group member. 	<ul style="list-style-type: none"> Program would have reached sustainability in March of this year if it were not for the <i>intifada</i>. Focus on collection. Disbursement down. Arrears increased. 	<ul style="list-style-type: none"> Training. Seminar on loan management at AMIR program. Set up new microbank. Consultant services on new product development. Market study on microcredit Microcredit Forum, but skeptical of NGO MFPs participation. Marketing of MIS services (software) to other NGOs.
Palestinian Development Fund (PDF) Tel: 2347350 El Ram Mr. Sami Saidi, Project Manager Interviewed Chris August, General Manager and Sami Saidi.	<ul style="list-style-type: none"> Islamic lending program with AL Aqsa Bank. Average loan size from \$50,000 to \$25, 000. Arrears increased to 50%. Small business loans US\$5,000 to US\$20,000, wants to start micro program in February in WBG and Jerusalem. In process of obtaining a banking license but cannot take demand deposits. 	<ul style="list-style-type: none"> Focus on collection. Disbursement down. Arrears increased. 	<ul style="list-style-type: none"> Microcredit Forum. Seminar on problem loan management in WB/G.

NGOs	Program Details	Effect of the intifada	Expressed needs or concerns
Communities-Habitat-Finance (CHF) Matt Lovick, Country Representative Interviewed Mr. Lovick	<ul style="list-style-type: none"> CHF has the lowest past-due rate identified during these visits with only 3% (more than 30 days). Authorized 20% of portfolio to be non-housing, interested in microcredit. 	<ul style="list-style-type: none"> Lending stopped when <i>intifada</i> started, but started up again. Focus on collection. Arrears increased. 	<ul style="list-style-type: none"> Microcredit Forum. Legislative reform.
Arab Committee for Agricultural Development (ACAD) Tel: 656-2144 , Samiramis/ Ramallah Ashraf El Zein	<ul style="list-style-type: none"> Began as the United Arab Company in 1988 loans for agricultural inputs. Registered as ACAD NGO in 1993. First loan in 1995. Branches in four major cities and opening in Hebron. Staff of 15. Plans for near complete cost recovery in 2001. Working capital loans of up to \$3000, for a declining interest rate of 18% + 1% service charge for a max of one year and Capital investment loans up to \$15,000, with rate of 12% + 1.5% declining balance for up to three years. 	<ul style="list-style-type: none"> Focus on collection Disbursement down. Arrears increased. 	

OTHERS	Program Details	Effect of the <i>intifada</i>	Expressed needs or concerns
Market Access Program (MAP)	<ul style="list-style-type: none"> Studying how to stabilize business in WBG as result of <i>intifada</i>. 		<ul style="list-style-type: none"> Sponsor workshops with the Chemonics project about <i>intifada</i>.
Massar Associates Mazen Asa'd,		<ul style="list-style-type: none"> Believes microloan portfolios are holding up better than loans to larger borrowers. Banks and NGOs struggling more than willing to admit. 	<ul style="list-style-type: none"> Microcredit Forum.
International Finance Corporation (IFC) Rami Khoury, Investment Officer,		<ul style="list-style-type: none"> Arrears increased through December but stabilized in January. Increased from 5% to 20% (for 30 day arrears). 	<ul style="list-style-type: none"> Microcredit Forum. Training.
Palestinian Monetary Authority (PMA) Deputy General Manager			<ul style="list-style-type: none"> Suports Bank Training Institute which could be a partner in establishing a credit training program in WBG. More bank lending. Loan-to-deposit ratios is 40%, should be 80%. Not enthusiastic about credit bureau because of 'unstable political environment in WBG and the need to keep function in in government hands (the PMA)'.

ANNEX II

Survey Questionnaire and Results

1. Have you assessed the impact of the current situation on your microcredit program? If yes, what are the results?

CBP	<ul style="list-style-type: none"> SMEs closed in conflict zones. Large decrease in new loan applications. More loan rescheduling (some ask to pay principle at end of loan period in lump sum, which bank usually approves).
BOJ	<ul style="list-style-type: none"> Portfolio decreased from \$1.7 mill to \$1 mill. Caution working with new clients and concentration on collection.
AB	<ul style="list-style-type: none"> Arrears caused by (1) lack FLO mobility due to the border closings -120,000 denied access to their work in Israel, (2) deterioration of economic situation, (3) less regional trade and (4) more cash reserves to hedge against emergency.
JNB	<ul style="list-style-type: none"> New loans dropped from 12 loan per month to 1 or 2.
ANERNA	<ul style="list-style-type: none"> Reluctance to make new loans, though FLOs still submit applications. Problem more acute for farmers.
UNRWA	<ul style="list-style-type: none"> Less loan disbursements and lowered repayment rates.
ASALA	<ul style="list-style-type: none"> Less loan disbursements and lowered repayment rates.
CRS	<ul style="list-style-type: none"> Less loan disbursements and lowered repayment rates.
YMCA	<ul style="list-style-type: none"> Less loan disbursements and lowered repayment rates.
PARC	<ul style="list-style-type: none"> Loan disbursement decreased to only 5 loans made during 3 months of closure. Arrears 51%.
FATEN	<ul style="list-style-type: none"> Fewer disbursements, smaller active portfolio, more arrears, risks to sustainability.
ACAD	<ul style="list-style-type: none"> Less loan disbursements and lowered repayment rates.
PDF	<ul style="list-style-type: none"> Repayments down from \$1.5 mill. to around \$0.5 million now.

2. Have you taken any measures to minimize the risk? What type of measures?

- | | |
|--------|---|
| CBP | • Loans are disbursed cautiously, rescheduling, intensive follows up on existing loans. |
| BOJ | • No new loans, no rescheduling, only collection. |
| AB | • Increase provisions (1.25% for 1-30 days past due, 10% for 31-90 days) and concentrate on collection. New loans carefully assessed. |
| JNB | • More personal guarantors (from 3 to 5) and salary transfer required as a guarantee. |
| ANERNA | • Caution with new loans. Working with the Ministry of Agriculture to document economic effects of closure, especially destruction of farmland and greenhouses. |
| UNRWA | • Concentration on repayment and new loan restrictions. |
| ASALA | • No new loans, emphasis on collection. FLOs and volunteers in touch with the borrowers at the community level to help them cope. |
| CRS | • Continuing to disburse loans (to encourage repayment through the promise of another loan) with smaller amounts, longer terms and fewer clients. |
| YMCA | • Caution with new loans, no lending to the garment industry. |
| PARC | • Caution with new loans. |
| FATEN | • More collection follow-up, new loans only to existing clients with good repayment history. |
| ACAD | • No new lending since start of the conflict, plan to restart program with salary transfer guarantees. |
| PDF | • No new loans. Crisis related arrears treated differently than regular delinquency. |

3. What is the status of other NGOs credit programs with the banks? What type of measures have they taken?

- | | |
|------------|---|
| YMCA | • Has contacts with UNRWA and sends them clients. |
| Other MFIs | • Not working with other NGO programs. |

4. Have you noticed an increase in your arrears as a result of the current conflict? If so, (a) how significant is this?; (b) does this constitute an all time high in the history of the program?

CBP	<ul style="list-style-type: none"> • Increase in arrears - WB from 1% to 3.5%, Gaza from 8% to 16%, both all time highs.
BOJ	<ul style="list-style-type: none"> • Increase in Nablus (though caused by high FLO turnover). an all time high.
AB	<ul style="list-style-type: none"> • Repayment rate drop from 97% to 70% to 60% in September, October and November respectively, with a partial recovery of 80% in December.
JNB	<ul style="list-style-type: none"> • No increase due to the policy of rescheduling (Arrears - Ramallah 0.88%, Nablus 3.5%, Hebron 0.67%, Bethlehem 0%, and West Bank 0.95%).
ANERNA	<ul style="list-style-type: none"> • Increase as a result of the loss of assets by 90 borrowers (10% of the total). Repayment rate dropped from 91% to less than 50%.
UNRWA	<ul style="list-style-type: none"> • Increase from 12% to 67% (measured as those more than a day late).
ASALA	<ul style="list-style-type: none"> • Increase from 6% to 11% for more than one day overdue.
CRS	<ul style="list-style-type: none"> • Increase but manageable. Getting smaller as poorly performing businesses leave the program.
YMCA	<ul style="list-style-type: none"> • Major increase from 9% to 60%.
PARC	<ul style="list-style-type: none"> • Increase to an all time high of 51%.
FATEN	<ul style="list-style-type: none"> • Increase from 0 to 20%. 60% of the portfolio one or more days late. No arrears on new loans
ACAD	<ul style="list-style-type: none"> • Drastic increase to 1150 loans overdue.
PDF	<ul style="list-style-type: none"> • Drastic increase.

5. Do arrears' increase concentrate in particular types of borrowers (small traders, artisans, grocery stores, etc) and particular geographical areas—Al Bireh, Bethlehem, Gaza, etc? In other words, is higher risk concentrated? Or does it run across borrowers and geographical locations?

CBP	<ul style="list-style-type: none"> • Problems in WB rural areas on the borders of 1948 regions (cities affected much less). • Gaza tourism including a borrower supplying paper products to hotels and restaurants • El Balkou'a region in El Bireh pharmacy borrowing money for expansion and renovation closed due to violence. • Enterprises such as grocery stores successful.
BOJ	<ul style="list-style-type: none"> • Area H2 of Hebron (where there is a curfew) from 4% to 11%. • Gaza sewing industry.
AB	<ul style="list-style-type: none"> • Bethlehem and in Toulkarem where branches deal with the tourist industry inside the green line.
JNB	<ul style="list-style-type: none"> • Clothing, wholesale, retail shops, restaurants and tourism. Borrowers in Rantees village are not visited and clients cannot reach the branch to make payments.
ANERNA	<ul style="list-style-type: none"> • Gaza and Jericho where damage resulted from uprooting trees and burning greenhouses. • Farmers cannot sell their produce. • Gaza and 1948 border regions.
UNRWA	<ul style="list-style-type: none"> • Retail and commerce (such as clothing shops). • Does not affect bakeries, food stores, and other necessities.
ASALA	<ul style="list-style-type: none"> • Gaza garment industry. • Tourism sector in Bethlehem has been affected drastically, including a t-shirt retailer, rosary shop and a candle retailer. • Jenin also has problems from the closure.
CRS	<ul style="list-style-type: none"> • Breadwinners working in Israel suffer most. CRS support provided through to women of the household.
YMCA	<ul style="list-style-type: none"> • Border areas and textile industry. Gaza situation similar to West Bank.
PARC	<ul style="list-style-type: none"> • Problems in entire region and all projects.
FATEN	<ul style="list-style-type: none"> • Gaza and some locations in the West Bank, which were under closure for long time such as Salfit and Howwarah near Nablus.
ACAD	<ul style="list-style-type: none"> • Gaza due to the demolition of plantations by the Israelis.
PDF	<ul style="list-style-type: none"> • Don't know, analyzing the situation. (PDF seems to lack prompt reporting systems)

6. What type of actions are you taking to deal with arrears' increase? (a) loan rescheduling?; (b) capitalization of interest payments? (c) lower or higher loan rates? (d) partial or total condoning of interest? (e) partial or total condoning of principal? (f) other? Do you undertake these actions on case-by-case basis? What are the costs for the micro lending program?

CBP	<ul style="list-style-type: none"> • Rescheduling loans, peer pressure and no unsecured loans. During past 3 months, disbursed 13 loans amounting to \$121,000.
BOJ	<ul style="list-style-type: none"> • No rescheduling, more follow-up, stringent new borrower screening.
AB	<ul style="list-style-type: none"> • Rescheduling.
JNB	<ul style="list-style-type: none"> • Rescheduling, where borrower pays 2.5% service charge on the principle after paying 10% of the outstanding balance.
ANERNA	<ul style="list-style-type: none"> • Rescheduling, acceptance of delays, no debt forgiveness.
UNRWA	<ul style="list-style-type: none"> • Undecided, no rescheduling but may waive late penalties.
ASALA	<ul style="list-style-type: none"> • Rescheduling.
CRS	<ul style="list-style-type: none"> • Smaller loans, increased loan periods and stringent client screening.
YMCA	<ul style="list-style-type: none"> • Rescheduling.
PARC	<ul style="list-style-type: none"> • No specific measures taken. Volunteers are in contact with the borrower at women's clubs and know when she is able to pay.
FATEN	<ul style="list-style-type: none"> • Waiver of penalty fees for loans issued before the uprising, no repeat loans for delinquent borrowers. FLOs aggressively follow up arrears (100% repayment rate).
ACAD	<ul style="list-style-type: none"> • Rescheduling and thorough follow up.
PDF	<ul style="list-style-type: none"> • Nothing yet.

7. Do you have loan defaults? If so, how many?

CBP	• No.
BOJ	• Yes, in Jenin where shops have been destroyed.
AB	• No, though one borrower was killed in the violence and his loan was written off. The bank also supported the family with a \$4,000 grant.
JNB	• No.
ANERNA	• No, loans are rescheduled.
UNRWA	• No.
ASALA	• No.
CRS	• Yes, two unrelated to conflict. One woman has defaulted on loans from several programs.
YMCA	• No.
PARC	• No.
FATEN	• Yes, 1%.
ACAD	• Yes, two unrelated to political situation, though it has prevented us from taking action.
PDF	• Under analysis.

8. How do you expect arrears to behave in the future if the conflict continues?

CBP	• Increase to 10% in the West Bank and more so in Gaza, though arrears are improving given the bank's more stringent loan criteria.
BOJ	• Increase and the bank may need to layoff more FLOs.
JNB	• Decrease because lending is more cautious and there is success in rescheduling to borrower's ability to pay.
ANERNA	• Increased and the MOA has to find a way to help farmers meet payments.
UNRWA	• Increase significantly
ASALA	• Increase, threatening lending program survival.
CRS	• Stay the same because CRS and ASALA are more cautious now.
YMCA	• Stay the same or increase.
FATEN	• Continue until all outstanding delinquent loans are paid or defaulted.
ACAD	• Increase.

9. Have you experienced a reduction in loan production because of the conflict? If so, how significant and why?

- | | |
|--------|--|
| CBP | • Reduction in new loans because people stopped applying after the bank stopped its marketing campaign. More secured loans are needed. |
| BOJ | • Reduction though problem in Nablus from administrative problems. |
| JNB | • Reduction because of less marketing. |
| ANERNA | • Reduction. |
| UNRWA | • Reduction from 245 loans per month before the conflict to 97 loans in Nablus. |
| ASALA | • Reduction though four FLOs are directed to keep in touch with the clients to help with problems. |
| CRS | • Reduction in new loans because of less marketing and loans to only old clients. |
| YMCA | • Reduction in new loans from 27 new loans per month to 0. Focused on collection. |
| FATEN | • Reduction in new loans. Only three projects approved in the last three months compared to average of 15 loans per month before conflict. |
| ACAD | • No new loans. |
| PDF | • Reduction in new loans |

10. What actions has management made as regards the FLOs and SLOs? Are they being directed to (a) keep searching for new clients? (b) concentrate mainly in loan collection? (c) concentrate in making visits to clients to assure them that program is “here to stay?” What has been the impact of the conflict on FLO productivity (number of loan accounts per FLO)?

CBP	<ul style="list-style-type: none"> Concerned with FLO safety and some follow-up by phone. No incentive reimbursement yet.
BOJ	<ul style="list-style-type: none"> FLOs cannot move around freely. SLOs follow-up, but problems in Hebron.
AB	<ul style="list-style-type: none"> Incentive reimbursements according to the average salary for five months before crisis (80% paid now, balance paid later if possible). One Bethlehem FLO resigned because could not commute from Hebron.
JNB	<ul style="list-style-type: none"> Concentrate on follow-up and collection. No performance based incentive (employees got an extra month’s salary in November 2000).
ANERNA	<ul style="list-style-type: none"> Incentive plan will be implemented soon.
UNRWA	<ul style="list-style-type: none"> Concentrating on collection but can disburse new loans when appropriate. FLO efficiency is very low (no incentives, but will implement them soon).
CRS	<ul style="list-style-type: none"> Follow up and loans to new and existing clients. New loans dropped from 25 new clients/month to 10/month.
YMCA	<ul style="list-style-type: none"> Visits to clients to assure them the program is here to stay. Number of loans / officer has decreased.
PARC	<ul style="list-style-type: none"> Volunteers working in women’s groups who have best repayment rates for loans outstanding. They have many successful village projects.
FATEN	<ul style="list-style-type: none"> All actions in question in effect. Productivity per loan officer dropped.
ACAD	<ul style="list-style-type: none"> Concentrate on collection. Incentives paid in lump sum at the end of the year.
PDF	<ul style="list-style-type: none"> FLOs lost incentive payments, though lending continues to keep them employed.

11. Can you please provide an estimate on how FLOs and SLOs are allocating their time? (a) Have their working hours dwindled as a result of the conflict? How significant this drop is? (b) What percentage do they devote to loan production as opposed to loan collection? In general: what are the major obstacles that FLOs face as a result of conflict?

CBP	<ul style="list-style-type: none"> Time allocated to follow-up with borrowers. This task is more difficult now than before. Others assist in other tasks of the bank operation when the follow-up is done. This varies in the different branches and from one FLO to another.
BOJ	<ul style="list-style-type: none"> FLOs are spending the time following up and renewing loans. Other than that, they might lose their jobs if this situation persists. One borrower could not return home after making a payment because Gaza divided into three exclusion zones, forced to spend the night at the FLO's house.
AB	<ul style="list-style-type: none"> 20% of the time is spent on looking for feasible projects to be lent and 80% is spent on follow-up.
JNB	<ul style="list-style-type: none"> 80% of time in loan collection and follow-up. 20% of time on renewing old loans or trying to sell loans.
ANERNA	<ul style="list-style-type: none"> ANERNA has 4 loan officers, two in each region. They spend their time assessing damages, and following-up with borrowers.
UNRWA	<ul style="list-style-type: none"> The time of the FLOs is spent mostly on collection.
ASALA	<ul style="list-style-type: none"> FLOs spend time contacting clients.
CRS	<ul style="list-style-type: none"> FLOs have lost some of their income. 40% of their income comes from the incentive linked to repayment rate, number of new borrowers and portfolio managed. CRS have given them the average of what they were gaining before the closures and the <i>Intifada</i>.
YMCA	<ul style="list-style-type: none"> Most of the FLOs' time is in the office following up borrowers over the phone because it is very difficult to move around.
PARC	<ul style="list-style-type: none"> Most of the time is dedicated to loan follow up.
FATEN	<ul style="list-style-type: none"> Loan collection and waste time because loan officers cannot reach the office or the clients.
ACAD	<ul style="list-style-type: none"> Mainly follow up.
PDF	<ul style="list-style-type: none"> FLOs are now gathering information from borrowers for the reasons of delays in repayments and the impact of the conflict on their businesses.

12. Have you contemplated actions in case an FLO resigns/dies/is injured?

- | | |
|--------|--|
| CBP | <ul style="list-style-type: none"> • In case of a loss of an FLO, there is a system in place where the program will not be affected. |
| BOJ | <ul style="list-style-type: none"> • High FLO turnover in Nablus, two FLOs resignations in Hebron. SLO follows up (not effective in Nablus and in Hebron). |
| AB | <ul style="list-style-type: none"> • The bank has experienced the resignation of FLOs in different occasions. The bank and its branches were able to hold on and overcome that by the following: a) Maintaining a full address of the borrowers and their guarantors b) A good relation between borrower and the supervisor loan officer besides that with the FLO. |
| JNB | <ul style="list-style-type: none"> • Bank has files where all information of borrowers are present in case an FLO leaves or dies or etc. |
| ANERNA | <ul style="list-style-type: none"> • In case an FLO dies, the portfolio will not be affected because Banks and ANERA has the addresses of the borrower and his guarantors. |
| UNRWA | <ul style="list-style-type: none"> • Reduction in new loans in case of a loss of an FLO, the organization has a filing and reporting system in place that allows follow-up. |
| YMCA | <ul style="list-style-type: none"> • No, in case of a loss of an FLO, YMCA hasn't contemplated action. |
| PARC | <ul style="list-style-type: none"> • No FLOs. |
| FATEN | <ul style="list-style-type: none"> • No action is contemplated if FLO dies.. |
| ACAD | <ul style="list-style-type: none"> • Have a file for every borrower. |

13. Has bank contemplated launching loan products that would best fit the current situation (hospital loans, housing loans, repair of fixed assets, etc)?

CBP	<ul style="list-style-type: none"> Bank is thinking of working in the housing loans with the Palestine Housing and Finance Corporation (PHF). The project is postponed now.
BOJ	<ul style="list-style-type: none"> Bank was studying the possibility of housing loans, but this is postponed because of the conflict.
AB	<ul style="list-style-type: none"> The bank didn't change its policy towards lending. Products like hospital loans, housing, loan repairs or fixed assets are regular products of the bank.
JNB	<ul style="list-style-type: none"> No new product for the conflict.
ANERNA	<ul style="list-style-type: none"> No new products. But ANERA is always trying to promote loans to new agricultural projects like the introduction of seedless grapes to Jericho.
UNRWA	<ul style="list-style-type: none"> Reduction in new loans. UNRWA has launched a loan product that reaches the poorer niche of the community. This is due to the competition with the Bank of Jordan and due to the need. The loan amounts have decreased to reach an average of \$400. This niche constitute of self employed non formal entrepreneurs, push carts etc..
CRS	<ul style="list-style-type: none"> no new products but new strategy.
YMCA	<ul style="list-style-type: none"> Reduction in new loans consumer loans for those who will use the services of YMCA's target such as aluminum, carpentry and metal works.
PARC	<ul style="list-style-type: none"> Not now.
FATEN	<ul style="list-style-type: none"> FATEN plans to expand and start individual loans, which was piloted last year to target the existing clients. They also want to accelerate phase I and II of individual loans for new clients. This needs approval from the donors to use the money of the group lending or get new fund. No results yet.
ACAD	<ul style="list-style-type: none"> No.
PDF	<ul style="list-style-type: none"> PDF is launching the microlending program.

14. Do you perceive expanding your portfolio under these circumstances? How feasible is this? Under what conditions will this happen?

CBP	<ul style="list-style-type: none"> No expansion now.
BOJ	<ul style="list-style-type: none"> Under the present situation bank doesn't plan to expand his portfolio, and if this persists FLOs will loose their job.
AB	<ul style="list-style-type: none"> The bank is ready to expand if the demand is there and if the loans are feasible.
JNB	<ul style="list-style-type: none"> No expansion at the time.
ANERNA	<ul style="list-style-type: none"> No expansion during the circumstances.
UNRWA	<ul style="list-style-type: none"> No expansion
YMCA	<ul style="list-style-type: none"> Expansion depends on the political situation; only if stabilizes.
FATEN	<ul style="list-style-type: none"> No expansion at the moment.

15. If the situation persists, what is your plan?

- | | |
|--------|--|
| CBP | • Cautious. |
| BOJ | • Under the present situation bank doesn't plan to expand his portfolio, and if this persists FLOs will loose their job. |
| AB | • Repeated question. |
| JNB | • To be asked to management. |
| ANERNA | • Work more with the MOA to try to coordinate compensation to farmers. |
| UNRWA | • Proceed with caution |
| YMCA | • Further rescheduling and may be expanding the target to select good clients. |
| PARC | • Plan is to continue the program. |
| FATEN | • To keep up doing good work and to reach sustainability. |
| ACAD | • Continue work and expand but with caution. |

16. How can you adjust to new situation? What type of adjustments is required to cope with the new developments?

- | | |
|--------|---|
| CBP | • Decision to stay and be more cautious. |
| BOJ | • Seems not to be able to adjust (to be verified). |
| AB | • Adjusting to new situation means maintaining a clean portfolio with minimum arrears. That is concentrating on good repayment rate and disbursing loans to feasible project. |
| JNB | • To be asked to management. |
| ANERNA | • Caution |
| UNRWA | • Proceed with Caution |
| CRS | • Adjusting by the measures mentioned before. |
| YMCA | • Very difficult to adjust because the whole economy is hit. |
| FATEN | • Because of the new situation, FATEN has more decentralization with full delegation of decisions to branches. |
| ACAD | • New terms of lending. Extra guarantees. |

17. Any specific recommendations to maintain credit activities if the current situation continues?

- | | |
|-------|---|
| AB | • The bank is considering a review of the interest rates to reflect real risk which is lower than perceived risk. |
| JNB | • To be asked to management. |
| UNRWA | • Proceed with caution |
| ACAD | • Nothing specific |

18. How can USAID/Chemonics help? What are the key elements to sustain the microlending? (a) A guarantee program or other risk reduction scheme? (b) Financing some type of special insurance to FLOs? (c) Partially covering defaults of existing accounts with demonstrated evidence of major catastrophe (ie, death of borrower?) (d) Launching an emergency loan facility?

- | | |
|--------|--|
| CBP | • Training and guarantee fund. Emergency loan facility not needed. |
| BOJ | • If USAID provides Guarantee Fund, bank may not allow their decision making in the program. |
| AB | • Training. |
| ANERNA | • Training and microfinance forum. |
| UNRWA | • Training |
| ASALA | • Training in reporting and MIS. |
| CRS | • Training and microfinance forum. |
| YMCA | • Risk sharing schemes and emergency loan facility. |
| PARC | • Training and TA. |
| ACAD | • Training and microfinance forum. |
| PDF | • Training and coordination. |

ANNEX III

Original Impact Report by Jorge Daly and Guy Henggeler

This annex provides the first draft of the impact report which was initially submitted on December 14, 2000, and was written by Jorge Daly and Guy Henggeler. It was originally prepared in the period between November and December 2000, prior to the project start-up and mobilization. Upon mobilization, some findings included herein were found not to be relevant on the ground and were therefore omitted in the final version of the report. The research was none the less useful in forming the basis for the final version.

A. Introduction

A.1 Objective of this Paper

More than two months have passed since violence erupted in Israel, the West Bank and Gaza. It has left more than 300 people dead, thousands injured and much public and private property destroyed. The United Nations recently published a report detailing the conflict's affects on the Palestinian economy.

- "In the aggregate, and excluding material damage to property and other losses, Palestinians are estimated to have lost US\$ 505 million during the period from September 28 to November 26, 2000," more than 2.5 times donor disbursements for the first half of the year (US\$ 183 million).
- Lost income-earning opportunities amount to approximately 10% of the estimated value of GDP for year 2000.
- More than one million Palestinians have been "immediately and negatively affected by mobility restrictions.
- The crisis has increased unemployment to at least 40% from 11%.
- 1,370,000 or 45.5% of the Palestinian population is under some economic distress.
- Poverty rates have increased from approximately 21% in September to approximately 32% in December. "Moreover, even with a partial relaxation of the restrictions on mobility, the report estimates that the poverty rate will rise to about 43.8% by end-2001."

Source: ("The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures, 28 September – 26 November 2000," pp6-9).

In response to the hostility and instability, Chemonics International has written this paper with regard to the "Building a Microenterprise Industry for the West Bank and Gaza" project, and it serves two purposes. First, the paper will give a brief assessment of the financial situation of the Arab Bank and the Bank of Jordan prior to the conflict and the likely impact on the banks and their borrowers. Second, with the help of bank interviews, possible measures and procedures will be detailed, resulting in a final recommendation to USAID. The goal of the recommendation is to provide USAID with a concrete and detailed course of action, which will help the two participating banks to operate during and immediately after the conflict and create contingency plans for the future.

B. Situation of Arab Bank and Bank of Jordan prior to the conflict (source: WB/Gaza Micro Part 1 Final Report, 5/2000)

B.1 Loans Outstanding and New Loan Creation

From the start of the microenterprise lending program in June 1998 through April 2000, the Arab Bank disbursed 1,867 loans totaling \$4,901,554, while the Bank of Jordan disbursed 2,975 loans totaling \$6,757,330 for a combined total of \$11,658,884. During the first four months of 2000, the two banks made 1,450 loans with the value of \$3,436,610. By April 30, 2000, their combined outstanding balances totaled \$3,965,388. Based on already attained and steadily increasing numbers, as of May 2000, it was reasonable to anticipate a 12-month numerical lending volume well in excess of 5,000 loans with a dollar value beyond \$13,000,000.

B.2 Repayment Rate and Loans At-risk

The repayment rate for the Arab Bank was generally high as of April 30, 2000. It reported a 97.28% repayment rate. Using the extremely conservative criterion of one or more days past due, the Arab Bank had 76 at-risk loans with an outstanding balance of \$10,635, (5.58% of the portfolio). The Bank of Jordan encountered a problem in its most productive branch in Nablus. Although the issue was immediately corrected, it had a marked impact on its financial results. ♦ The Bank of Jordan reported an 82.67% repayment rate. It had 513 at-risk loans with an outstanding balance of \$249,898, (11.68% of the portfolio). If we were to apply a more liberal measure of 31 days past due, there would be a significant reduction in at-risk loans. The Arab Bank would only have 16 at-risk loans while the Bank of Jordan would have 173 at-risk loans.

B.3 Income/Costs

Since the microlending program is still young, start-up costs and initial low lending volumes have slightly restricted the path toward sustainability. However, as of April 2000, two of the initial four bank branches, Arab Bank's Bethlehem branch and the Bank of Jordan's Nablus Branch, were operating at 93% and 91% sustainability (down from 95% prior to the Nablus branch problem). Overall, the Arab Bank operated at 69% and the Bank of Jordan operated at 78% sustainability.

C. Likely impact of conflict on:

C.1 Ability to create new loans and cover costs

The conflict places extreme pressure on many elements of the microlending program. Demand for microloans has been shown to increase slightly during the crisis and dramatically immediately after the crisis, e.g. civil war in Mozambique, 1998 floods in Bangladesh. As stated in the introduction, the UN estimates the unemployment rate in the West Bank and Gaza to be at least 40%, having increased from about 11% in the first half of 2000 ("The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures, 28 September – 26 November 2000," p9). Due to the low intensity of the current violence (as opposed to full-scale war) demand for microlending may increase during the conflict rather than only after its end. The banks will need to issue new loans much more quickly than usual in order to provide borrowers with the capital necessary to sustain or rebuild income-generating activities and to meet payments on previous loans. This situation will be exacerbated the longer the violence continues and as personal savings erode.

Increased loan generation, poor logistics, and any emergency measures taken by the banks will increase costs. "Several [microfinance organizations] report that their interest income does not cover even the administrative costs during [crises], because of low repayments, new loans, rescheduling of loans, the additional cost of administering donor funds, and higher transaction costs" (Nagarajan, Geetha. "Microfinance in the Wake of Natural Disasters: Challenges and Opportunities," p32). In the case of the Arab Bank and the Bank of Jordan, they both had loan-

♦ The Bank of Jordan's previously outstanding performance was hurt by a significant increase in loan delinquencies resulting from incorrect accounting treatment of loans in months during which partial payments were received, beginning around Ramadan. The bank addressed the problem by relieving the supervising loan officer of his responsibilities and by reducing lending in the Nablus region. The bank was confident that eventual losses would be minimal. Its other branches continue to perform well, with both Gaza and Jenin having almost no at-risk loans.

loss provisions of 201% in the former and 26% in the latter of their at-risk loans (26% is a result of the Nablus branch problem). However, if the conflict is severe enough or is long in duration, the loan loss provisions will have to be increased, with the consequent negative impact on operating results.

C.2 Ability to Recover Loans in Relation to FLO/SLO Morale, Property Destruction, Death of Borrower

Experience has shown that the best method to recover loans during crisis is to maintain close contact with the borrower. Recovering old and new loans will become increasingly difficult if the violence in the West Bank and Gaza increases in intensity. Israeli travel restrictions have already restricted many Palestinians from going to their workplaces and may have an impact on the FLOs' and SLOs' ability to meet with borrowers. The restrictions have and will continue to have a negative impact on income within the West Bank and Gaza, which will reduce spending and harm microbusiness.

Other major risks to loan recovery include property destruction and death of the borrower. In the case of property destruction, the Office of the UN Special Coordinator reported in its November 30, 2000 report on the impact of the violence on the West Bank and Gaza that "the period between September 28 – 9 November, ...[witnessed] partial or total destruction by Israeli heavy weaponry of 431 private homes, 13 public buildings, 10 factories, and 14 religious buildings...in addition the report documents 69 cases of bulldozed orchards and agricultural structures" ("The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures, 28 September – 26 November 2000," p9). Lastly, the worst case scenario would be the death of a client. Aside from the loss of the loan, the client's family may be left without an income. This situation will have to be dealt with on a case by case basis and with extreme sensitivity.

In regard to FLOs and SLOs, they will be under extreme pressure to maintain the quality of their loan portfolios. A high morale will be difficult to sustain during and immediately after the conflict. This adds more risk because much of the success of loan recovery and loan creation rests with the FLOs; consequently, their good performance is vital to the microlending program.

C.3 Various branches

Gaza was considered to be the fastest growing market for the microlending program. The Bank of Jordan's Gaza branch set a new loan generation record for April 2000. Unfortunately, the Gaza Strip has been split in half by the Israeli Defense Forces' roadblocks, and it has been the target of travel restrictions, border closures and Israeli bombardments. Ramallah, Hebron, Jenin, Bethlehem, and Nablus, where the banks have major branches for microlending, have also been severely affected by the fighting and Israeli closures and bombing.

D. Results from bank interviews

D.1 Bank of Jordan

D.2 Arab Bank

D.3 Summary/conclusions

E. Possible measures/procedures

E.1 Grant program

There are two types of grant programs that USAID should consider: 1) grants designed for the borrowers, and 2) grants designed for the participating banks.

First, grants designed for borrowers are an ideal way to link relief and development. Trickle Up has used grant programs very successfully in its efforts in Sierra Leone, Liberia, and the Democratic Republic of Congo. It offered small concessional grants through a variety of microfinance organizations in the form of seed capital in two tranches. They coupled this with business training and focused on enterprise sustainability rather than financial sustainability, which allowed the microfinance organizations more freedom during times of crisis. The value of such a program is also that it can provide clients with a much-needed capital infusion necessary to restart, sustain, or reconstruct their businesses. Also, Bangladesh Rural Advancement Committee's (BRAC) experience in Bangladesh suggests that grants along with housing loans are essential parts of asset-replenishment necessary for income generating activities (BRAC, was created in 1971 with donor funds to provide relief services for victims of the country's war for independence and of the cyclone soon after independence).

However, not all borrowers are receptive to grant programs. Women's World Banking's microenterprise affiliate Duterimbere in Rwanda attempted to implement a grant program after the 1994 violence. Duterimbere received a donation of US\$10,000 designated to reimburse clients for lost savings. "However, with the money, clients turned down the grants and asked that they receive a US\$150 loan instead. They explained it was more important to restart some kind of income generating activity in the short term and ensure that they could gain access to program services in the future" (Doyle, Microfinance in the Wake of Conflict: Challenges and Opportunities, p37). Some microfinance practitioners also do not endorse grants in low intensity conflicts because these seem to be "subsidized credit dressed in new clothes." The argument goes further in the sense that subsidized credit does the borrower and microenterprise a disservice because it does not prepare them for market loan rates and a competitive business environment.

With respect to the grant programs designed for the participating banks: as stated previously, during and immediately after the conflict, demand for credit has a tendency to surge and costs have the propensity to increase. In order to combat this on a purely operational level and barring substantial increases in loan rates, which ultimately will be self-defeating, banks need to write new loans to cover the higher costs. USAID could provide a grant to the banks, not to cover costs, but rather to issue loans against. In an ideal situation, USAID would have its grant returned once all the loans issued against it were repaid. USAID could then decide to allow the banks to keep the grant or use the income generated for funding the "conflict relief fund" discussed below (E.3).

E.2 Guarantee program

Overall, it can be said that guarantee programs, like grant programs, can represent "subsidized credit dressed in new clothes." Practitioners argue that during low intensity conflicts, loans at market rates are advantageous for all parties involved in the lending process. Soft loans, grants

and guarantee programs can be unsustainable and damaging to the microfinance institutions' reputation. It is also argued that microfinance institutions (MFIs) do the client a disservice by subsidizing their loans because it does not aid them in the competitive business world.

Experience suggests that guarantee programs fail because "the payments to lenders for loan losses exceed the revenues and reserves of the guarantee program funds" (Meyer, p6). Many programs close because of the high number of claims and failure to reach operational sustainability. Mismanagement and outright abuse of funds are also significant reasons for failure. Still, and regardless of the odds against sustainability, guarantee programs continue to be created by governments, donors and bankers in developing countries.

The goal behind guarantee programs is to increase lending to target clients and/or to issue loans where the terms are softer, e.g. reduced collateral requirements, lower interest rates, longer terms, etc. The idea is that the lenders use guarantees as a way to market other products to the client who eventually "graduates" to the non-guaranteed products. However, the risk is that a guarantee program could induce laxness in loan screening, monitoring and collections. Lenders may also experience a reduction in return-on-assets as the transaction costs increase. In spite of this, some people argue that guarantee programs create "additionality," i.e. lenders will augment their available funds and create loans that would otherwise not have been created for customers who ordinarily do not have access to non-guaranteed credit (Meyer, p9).

Due to the associated cost of lending-guarantee programs, there is risk that the lender may pass those costs on in the form of higher interest rates for non-guaranteed loans. In addition, non-guaranteed borrowers may be crowded out if lenders allocate scarce resources to guaranteed borrowers (Meyer, p11). Furthermore, one can argue that guarantee programs could increase moral hazard. If the borrower is aware that his/her loan is guaranteed by a donor organization (as opposed to a group or individual), there is little incentive to repay the loan, at the very least, to repay on time.

USAID created a guarantee program in Latin America. It "established a US\$ 1 million guarantee facility through a loan to ACCION International. The loan was deposited in a US bank which issued standby letter of credit to Latin American banks that lent their own resources to local ACCION affiliates for on-lending to microenterprises. With the guarantee, the affiliates were able to augment their resources and increase their lending to customers unable to access regular bank loans. Since [the affiliates] had limited access to other funds, the resources available through the guarantee probably resulted in loans to microenterprises in approximately the same amount, that is most of the loans probably would not have been made without the guarantee. [On the other hand,] the additionality argument is harder to make for large institutions with abundant resources, [e.g. the Arab Bank]. In this situation loans supposedly made because of the guarantee may simply substitute for some loans the institution would have made anyway" (Meyer, p9).

Despite the above risks and potential problems associate with guarantee programs, it is important to note that even those practitioners opposed to guarantee programs argue that subsidies can be justified following a severe conflict. Consequently, if the situation further deteriorates in the West Bank and Gaza, a guarantee program could become an effective mechanism to sustain

and/or expand microlending programs. An effective and properly structured guarantee program could be used to alleviate suffering by the worst affected clients.

E.3 Conflict Relief Fund (CRF)

Relief funds are very new to the microfinance industry. The main experience stems from disaster relief funds. The early lessons learned from these funds are useful in helping create a conflict relief fund (CRF). Relief funds are generally created through initial donor grants and additional funding stems from either client or MFI contributions. Moreover, issuing a grant to start-up a relief fund would not create donor dependency because it would not go directly to the MFI or its clients; instead, the grant would be a pool of capital set aside used to meet the needs of clients who are impacted by the conflict. A grant in the form of a CRF would also appease critics of grant programs because the grant would be used to issue short term emergency loans, ideally, at market rates. In some cases, larger MFIs should be able to initiate CRFs using their own capital. It is important to note that conflict relief funds are not intended to prop up the MFIs. Any non-performing loans and portfolio quality problems faced prior to the conflict should not be remedied by the conflict relief fund.

There are three fund structures that have been used by disaster relief funds. Experience has shown that no one structure is inherently better or worse than another. These are briefly explained below.

MFI Managed – Single Institution – This structure gives the MFI most of the responsibility for the fund. With an initial injection of capital from a donor, the MFI then creates the fund and decides when to lend the funds. The donor or third party organization conducts some monitoring.

Separate Conflict Relief Fund Management – Multiple/Single Institution(s) – This structure creates a fund for single or multiple MFI(s) and is initially funded by a donor organization. Thereafter, an independent entity handles the management of the fund. The independent entity lends the funds to the MFI, which then on-lends the funds to the affected households.

MFI Managed – Multiple Institutions – This structure falls between the two other structures. Here, the funds are distributed to multiple MFIs in an initial one-time grant, which the separate MFIs then manage.

One of the key issues faced when creating a relief fund is control. This must be carefully addressed because of the potential for abuse and mismanagement. The question is: does the MFI, the donor agency or the independent entity control the flow of funds. Guidelines may allow for relief loans to non-clients who consequently, may become future clients. Also, MFIs may want to lend out a portion of the relief fund during normal times to increase revenues. This would decrease the available relief fund and if a conflict broke out, the relief fund would not be able to operate to its fullest. Monitoring of the conflict relief fund is a crucial element of control. It should include the following: disbursement of funds; loan recipients (to ensure that the target market is served); loan performance (to ensure that repayment requirements are met); and investment of funds (to ensure that the funds are invested in appropriate instruments when not on loan).

Another essential part of a conflict relief fund is the speed of disbursement. If there is an independent entity controlling the flow of funds, the MFI may be required to gain approval from the entity stating that the affected clients are truly in need of relief. Assessing who requires loans from the relief fund can be time consuming especially if there are no set guidelines. It is important to note that the limited experience with disaster relief funds has demonstrated that loan repayment has been nearly a 100% while no effort was made to assess the ability to repay. Standardizing loan sizes and simplifying damage assessment procedures would help decrease costs and reduce the time needed to disburse the funds.

Trigger mechanisms are extremely important because they determine when the conflict relief fund is actually usable. Some disaster relief funds wait for a national declaration of a disaster. Similarly, conflict relief funds can be triggered by way of a declaration of war or the signing of a peace treaty or a cease-fire. In the case of the West Bank and Gaza, other triggers could be imposed curfews, border closings, travel restrictions, and/or land confiscation. In this case, the triggers may be local emergencies rather than national emergencies.

There is also a moral hazard associated with relief funds. “If the [CRF] does not retain the principle or interest earned from the [CRF] loans, they become a part of the MFI’s regular operations. ...MFIs that earn income from making [CRF] loans can use this income to cover their costs. However, if the financial benefits are too great, they may be tempted to loan out [CRF] funds more than needed or to force [CRF] loans on clients who may not need them so that they can increase their own profitability” (Nagarajan, p19). When an MFI is allowed to profit from the loans made from the relief fund, abuse may occur in that the MFI may loan out more than is actually needed. On the other hand, if the MFI doesn’t profit at all, MFIs would only lend out when the funds are definitely needed. When MFIs still incur operational costs in issuing relief loans, they may only access the relief fund at the last possible moment reducing the timeliness and the potential positive impact.

E.4 Emergency Loan Program

After careful assessment of the conflict’s impact on the banks and clients and/or a dramatic increase in the conflict’s intensity, it may become necessary to provide technical advice to create an emergency loan program. The loans involved would be small, short maturity loans, and they would be provided to the clients as soon as possible in order to maximize the benefits. There are three types of emergency loans that can be issued: soft loans, housing loans, and asset-replenishment loans. An emergency loan program can be especially useful if the conflict becomes more intense and if the three types of loans are used in conjunction with one another.

E.4.a Soft-Loans

Soft loans may be characterized by having reduced collateral requirements, lower interest rates, or varied payments schedules (e.g. grace period). They can be used “to act as a source of income for affected clients to help them meet basic consumption needs until they are able to restart their income generating activities” (Brown and Nagarajan, Bangladeshi Experience in Adapting Financial Service to Cope with Floods: Implications for the Microfinance Industry, p28).

Also, emergency soft loans act as valuable injections of capital for clients whose microbusinesses have been severely affected by the conflict. “If clients receive funds in cash, they have the flexibility to set their own priorities for using the funds (although in areas where food and medicine supplies may be insufficient during a [crisis] or where prices of basic necessities have increased dramatically, in-kind loans may be of value) (Brown and Nagarajan, Bangladeshi Experience in Adapting Financial Service to Cope with Floods: Implications for the Microfinance Industry, p29).

The Association for Social Advancement’s experience demonstrates that “small emergency loans to a few clients, ...and small advances against savings are more effective than new loans in protecting both the portfolio and clients. Members tend to repay advances against their savings and small emergency loans more quickly and in full compared with new loans and rescheduled old loans. Such members also avoid debt-dependency syndrome at the client level” (Nagarajan, Microfinance in the Wake of Natural Disasters: Challenges and Opportunities, p26).

The table below shows some examples taken from Warren Brown and Geetha Nagarajan’s Bangladeshi Experience in Adapting Financial Service to Cope with Floods: Implications for the Microfinance Industry (p28). Although these loans were created during a natural disaster, circumstances faced by MFIs in disasters are similar to those in conflict.

Organization	ASA	CARE Affiliates	BURO Tangail	BRAC
Size of loan	2,000Tk/1,000Tk •	500Tk/1,000Tk	2,000Tk	500Tk
Term of loan	12 months	3-12 months	24 months	6 months
Interest rate	15% flat rate	6-12% rate	5% annual	0%
Repayment begins	Month immediately following disbursement	Two months after disbursement	Two months after disbursement	Month immediately following disbursement

E.4.b Housing loans and Asset-replacement loans

Housing loans in conjunction with asset-replenishment loans are essential to conflict relief. They may be very useful because of the amount of destruction that has already taken place, and if the conflict becomes more intense. Experience from BRAC’s housing reconstruction programs have demonstrated that the programs should be structured similarly to the soft loan program, i.e. the loans should be small, short maturity loans, and they would be provided to the clients as soon as possible in order to maximize the benefits. Also, “BRAC suggests that housing loans are essential for effective use of grants and loans provided for asset replenishment and income-generating activities” (Nagarajan, Microfinance in the Wake of Natural Disasters: Challenges and Opportunities, p24).

Asset-replenishment loans do not increase repayments on existing loans in the short run and may require several consecutive tranches to ensure income generation and a return to normalcy. Long-term clients are more likely to make timely payments than new borrowers. Again, the

• 1 USD = 50Tk

rationale for providing housing/asset replacement loans to protect the MFI portfolio is as follows: By replacing as soon as possible after a conflict the non-land assets the household uses for its main source of livelihood, and providing cash loans to tide the client over during the initial post-conflict period, the MFI enables the client to repay future loans and rescheduled old loans normally. Also, the client's business will have an increase chance of surviving the conflict. Furthermore, from a long-term perspective, new loans to old clients can help an MFI retain good clients and protect its future portfolio. Repayment of new loans issued for housing and asset-replacement has shown mixed results. Some programs had near perfect repayment rates while others suffered from late repayments; however, over time the repayment rates improved (Nagarajan, Microfinance in the Wake of Natural Disasters: Challenges and Opportunities, p26).

E.5 Increase training and incentive payments to FLOs/SLOs

FLOs and SLOs play a crucial role in “developing and implementing customized responses quickly. During crisis, virtually all [microfinance institutions]... rely on local staff to: 1) conduct rapid assessments of the extent of damages [and risks], 2) determine where and when loan rescheduling was required, and 3) identify recipients for relief loans” (Nagarajan, Microfinance in the Wake of Natural Disasters: Challenges and Opportunities, p35). FLOs and SLOs will only be able to conduct this type of work if they are properly trained and provided with the proper equipment (e.g. mobile phone) and incentives. Morale will increase as a result because the staff will feel more empowered and confident in its ability to play a crucial role in helping clients, who are affected by the conflict, with prompt and proper service and products.

Specialized training and defined conflict procedures will help alleviate some of the pressures and risks of the conflict. Developing conflict contingency plans can be one of the most important methods of protecting the portfolio during times of crisis. “Staff training in [conflict-management] exercises and early warning systems is effective in enabling personnel to prepare for [conflicts], quickly assess [the crisis], and anticipate portfolio risk” (Nagarajan, Microfinance in the Wake of Natural Disasters: Challenges and Opportunities, p41). Also, the costs that the banks will incur will be reduced because they will have better logistics and therefore, lower transaction costs. A good example of proper training and planning is demonstrated by the Bangladesh Rural Advancement Committee's experiences in Bangladesh (BRAC). During times of crisis, BRAC faced few increased costs because they had properly trained staff who had the ability to create timely new credit products which addressed the specific needs of clients effected by the crisis. BRAC was able to accomplish this because the personnel had been properly trained and procedures were outlined ahead of time.

During times of conflict, the incentive payment and travel allowance structures may have to be adjusted to ensure proper compensation for the additional risk associated with sustaining contact clients. The incentives provided during the conflict could be in the form of increased wages, bonuses, or additional vacation time. Moreover, increased incentives will help maintain a higher level of morale, motivate FLOs and SLOs to maintain close contact with current clients, and also promote conflict relief measures. As stated previously, repayment rates increase the better and more frequent the contact is between clients during the conflict.

F. Recommendations

Bibliography

Beijuka, John. "Microfinance in Post-Conflict Countries: The Case Study of Uganda," Paper prepared for Joint ILO/UNHCR Workshop, Geneva, Switzerland, September 15-17 1999.

Brown, Warren and Geetha Nagarajan. "Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry," Microenterprise Best Practice Project, Development Alternatives, Inc., Bethesda, Maryland, August 2000.

Brown, Warren and Geetha Nagarajan. "Disaster Loan Funds for Microfinance Institutions: A Look at Emerging Experience," Microenterprise Best Practice Project, Development Alternatives, Inc., Bethesda, Maryland, August 2000.

Doyle, Karen. "Microfinance in the Wake of Conflict: Challenges and Opportunities," Microenterprise Best Practice Project, Development Alternatives, Inc., Bethesda, Maryland, July 1998.

Hassan, Emrul and Nina Nayar. "Effects and Implications of High Impact Emergencies on Micro-finance: Experience from the 1998 Floods in Bangladesh," South Asian Network of Micro-finance Institutions, Occasional Paper 1, Section 3, pp24-33, 1999.

"The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures, 28 September – 26 November 2000," Office of the United Nations Special Coordinator, November 30, 2000.

Meyer, Richard L. and Geetha Nagarajan. "Evaluating Credit Guarantee Programs in Developing Countries," Occasional Paper 2322, Ohio State University, Department of Agricultural Economics and Rural Sociology, June 1996.

Nagarajan, Geetha. "Developing Financial Institutions in Conflict Affected Countries: Emerging Issues, First Lessons Learnt and Challenges Ahead," International Labour Organization, Enterprise and Cooperative Development Department, September 1999.

Nagarajan, Geetha. "Microfinance in the Wake of Natural Disasters: Challenges and Opportunities," Microenterprise Best Practice Project, Development Alternatives, Inc., Bethesda, Maryland, March 1998.

de Vletter, Fion. "The Evolution of Microfinance in a Successful Post-Conflict Transition: The Case Study of Mozambique," Paper prepared for Joint ILO/UNHCR Workshop, Geneva, Switzerland, September 15-17 1999.

"West Bank and Gaza Microenterprise Lending Program Final Report," Chemonics International, Inc., Report prepared for USAID/West Bank and Gaza, May 2000.